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C O N F I D E N T I A L SECTION 01 OF 02 LAGOS 000697

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DOE FOR GPERSON, CGAY

E.O. 12958: DECL: 10/23/2017
TAGS: EPET ENRG PGOV NI
SUBJECT: NIGERIA'S OIL REGULATOR ON SECTOR REFORM

REF: LAGOS 0667

Classified By: Acting Consul General Hutchinson for reasons 1.4 (B) and (D)

¶1. (C) Summary: Nigeria's petroleum regulatory chief said the government will give its interests in oil production joint ventures to a newly formed national oil company. Costs for building the OK liquefied natural gas (LNG) plant have increased significantly and he said the plant's future is in jeopardy. End Summary.

Oil Chief: Good riddance to NNPC

¶2. (C) In an unusually forthright meeting with Econoffs, Tony Chukwueke, the Director of Nigeria's Department of Petroleum Resources (DPR) talked about petroleum sector reform, the natural gas industry, his opinions about Indian oil firms and marginal oil field development.

¶3. (C) Chukwueke told Econoffs that he thought the current administration was "very inexperienced" in petroleum issues and he said all of the reform work had been done during Obasanjo administration. When asked how the new NNPC would be structured, he was vague, but he did say that after reforms were complete the government would be "rid" of the new national oil company. Current plans, he said, would give NNPC ownership of Nigeria's share of the joint ventures with the international oil companies (IOCs). The Nigerian government would receive revenues only from royalty oil and tax receipts. According to Chukwueke, this would free the Nigerian government from responsibility for cash call payments to the joint venture partners. (Note: Other sources have reported that in any reorganization the replacement for the DPR would retain the interests in the joint ventures. End Note.)

¶4. (C) Chukwueke acknowledged that NNPC was not currently able to function as an independent oil company and he was harshly critical of NNPC executives. He noted its small production arm, Nigerian Production and Development Company (NPDC) has never fulfilled a mandate to take over oil field operations from a joint venture partner. (Note: Joint ventures typically include a clause requiring that NPDC assume the role of operator within five years of production start. End Note.) The joke was, he said, that the NNPC headquarters building could collapse and the Nigerian oil

industry would continue on as if nothing had happened.

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LNG Projects Over Budget; OK LNG May "Not Fly"
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¶5. (C) On the myriad of natural gas related issues, Chukwueke acknowledged some progress was being made in gas flaring, particularly by Shell. The flaring problem persisted mainly in Chevron operated oil fields, although he said the company was repairing its natural gas pipelines and that should alleviate some of the flaring. He praised the work of the World Bank in facilitating the reduction of gas flaring. Nigeria, he said, would be interested in a carbon credit system that granted credits directly to oil companies investing in natural gas gathering projects. He reiterated a plan initially presented at a gas flaring workshop, to raise upstream natural gas prices to USD 2.50 per mmbtu in an effort attract more third party investors (Ref).

¶6. (C) On the status of planned LNG projects in Nigeria, Chukwueke was downbeat. He noted the number of construction companies capable of building LNG plants was small and construction costs were skyrocketing as a result of a worldwide LNG construction boom. Estimated costs for constructing the OK LNG facility now reached USD 13 billion and that would "not fly." Costs for the planned Brass LNG plant and future trains at NLNG were also increasing, although he expected those projects to continue.

¶7. (C) Chukwueke took a similar tone on the performance of the Indian state oil cmpany. He expressed disappointment with India's Oil and Natural Gas Company (ONGC), saying it

had not proven itself to be a true producer in Nigeria and it could not operate without the assistance of France's Total. In contrast, the small Indian independent Sterling Global Oil Resources was performing well in the four blocks it won during in a recent bid round. He expected the Korean National Oil Company (KNOC) to start work on its natural gas pipeline to Kaduna and said it had started work on a pipeline to feed the West African Gas Pipeline project.

Big Oil Companies Need Not Apply

¶8. (C) On oil field development, Chukwueke asked for help in recruiting small, independent U.S. operators to exploit marginal fields in the Niger Delta. He proposed a workshop in Houston to promote investment and asked for USG help in selling the Niger Delta as a place for small oil producers to do business. In his view, the major oil companies are attacked because of their size and international scope. Smaller companies would not face such problems. (Note: The head of Nigerian owned independent oil company Dubri has reported that all his production is shut-in due to violence and theft. End note.)

¶9. (C) Comment: Chukwueke's unusually sharp and candid views on NNPC may reflect infighting over oil and gas sector reform. At least that would be a sign that someone, somewhere in the Nigerian government is actually thinking about the reorganization. It certainly contrasts with the public silence that has followed the initial excitement over petroleum reforms. In any case, from what little we know, plans for an independent oil company sound increasingly dubious. There appears to be an effort to bundle all that is wrong with NNPC and disown it in one fell swoop. Refineries that are chronically incapable of making gasoline, an oil production company that doesn't produce much oil, and a joint venture partner that doesn't meet its cash call obligations do not make for a world class oil company. End Comment.
HUTCHINSON